

NATIONAL NATIONAL PARK SERVICE
CONCESSION MANAGEMENT ADVISORY BOARD

BOARD MEETING MINUTES

DENVER, COLORADO

NOVEMBER 4 AND 5, 2004

Prepared by Marika Edler, Board Secretary

NPS Meeting - November 4, 2004

Welcome

Jo Pendry, Concession Program Manager welcomed the attendees and explained the authority under which the meeting was being held.

Convene Business Meeting

Chair Allen Naille called the meeting to order at 8:40 a.m. He asked everyone present to introduce themselves, providing some basic information. Introductions were made.

Agenda

Motion: Dr. Eyster moved, seconded by Board Member Weerts to approve the agenda for the meeting. The motion carried.

Minutes

Motion: Dr. Eyster moved, seconded by Board Member Voorhees to approve the March 4, 2004 minutes. The motion carried.

Update on Concession Contracting

Jo Pendry, Chief of the National National Park Service Concession Program provided the Board with a short work history of her service with the National National Park Service and her experience before coming to work for the National Park Service. She stated she was very happy to be a part of the National National Park Service team and also working with concessioners.

Ms. Pendry continued with an update on the status of the Concession Contracting Program. She reported there were about 600 Concession contracts. There are now objectives in the contracting program to eliminate the backlog of expired contracts to ensure that the processes and procedures are up to date and efficient, and to ensure that the contracts result in improved visitor services, facility condition, and resource protection. The contracts are broken out by

region, and the Alaska Regional Office has approximately 100 contracts, and since the 1998 Law, they have awarded 41 of those contracts. They have seven prospectuses that are currently released and out for response, and they anticipate that they will be releasing four more prospectuses in the next six months.

The Intermountain Region has the largest number of Concession contracts at 243. Since the new law, they have awarded 157 of those with six prospectuses currently on the street, and eight anticipated in the next six months.

The Midwest Regional Office has approximately 80 contracts, 32 of which have been awarded, two of which are currently out for bid, and five anticipated in the next six months.

The National Capital Region has 13 contracts, of which they have awarded zero since the new law, and that does not mean they are not doing anything, they probably have a lot of contracts that are still valid. They anticipate the release of four in the next six months.

The Northeast Regional Office has 37 contracts, 27 of which have been awarded since the new law, one that is currently out for response, and three anticipated.

The Pacific West has 80 contracts, of which four were awarded since the new law, five currently out for review and response, and seven anticipated.

The Southeast Regional Office has 63 contracts, ten of which have been awarded since the new law, three are out right now, and 12 anticipated.

Chairman Naille inquired how many out of the 600 some contracts not yet awarded in the Alaska Region would be available for a prospectus status and how many are on a temporary renewal status.

Ms. Pendry explained that about 300 that have been awarded, that of the remaining 300 there are about 75 that are still within their operating period. So the remainder are either under

some form of continuation or extension. There are approximately 125 to 150 contracts that need yet to be awarded and there are still 125 that need to be studied that are on either an extension or a continuation and some of them have been expired for quite a number of years.

Ms. Pendry explained that she would show some of the tools being put into place to reduce the backlog, some of the things that were done, and some of the things still needed to be done in order to be able to move more quickly on raising prospectuses and turning contracts.

The Washington Office Concession Program only manages those contracts that are \$3 million and above in annual revenue. All of the other contracts can be awarded either by the Regional Director or by the Park, depending on their dollar value. There are approximately 62 contracts of \$3 million and over and the prospectuses are developed by the Washington office staff with assistance from IDIQ contractors and corporate support contracts. Of those 62 contracts seven are going to be published by March, three were recently published and ten have been awarded. Twelve are current and they will all expire beyond 2007. On 13 contracts prospectus development has been started and are in some phase of development. Nine are in the planning phase of prospectus development, and eight contracts have some sort of problem where the development phase has not started yet.

Board Member Voorhees inquired what Ms. Pendry's expectations would be for a year from today and Ms. Pendry indicated she estimated they would be able to do about six to eight of the larger prospectuses released over the next year. The process and the prospectus development is very complex and requires a lot of due diligence, condition assessment work, pre-planning, general management plans, and having commercial services planning documents in place. This is what is holding up the prospectus development in many instances.

To ensure getting the prospectuses out in a timely manner, one of the first things that was

done was contract assistance for professional prospectus development. Four firms have been awarded IDIQ contracts, that is Indefinite Delivery and Indefinite Quantity contracts, PriceWaterhouseCoopers, ERA, Economic Resource Associates, Booz Allen, and Dornbush Associates. These are firms that were pre-qualified to go and assist parks, provide prospectus development. And they do that not only for the large contracts, those 62 that were identified, but they are also available for the parks' use in preparing the smaller prospectuses if they are needed.

The IDIQ contracts can also be used by Regions and Parks to assist in their development of the prospectuses, thereby increasing the consistency and the quality of the product.

The next thing put into place, is sample scopes of work for prospectus development. It was found in the past that the parks are no experts in writing scopes of work. The scope tells the contractor the types of services that they are supposed to be analyzing and helps them know what they are supposed to do when they get on the ground. In the past scopes were written by parks or by personnel who were not really familiar with that process. Some of these scopes are very complicated. They include facility condition assessments as a piece of the scope of work, and conducting a facility condition assessment which is very complex. Sample statements of work were developed that parks and regions can use so that, when they are ready to put their prospectus or when they are ready to hire the IDIQ contractor, they have a sample scope that they can use to help them with the process faster.

There is a process in place to do internal tracking and management reporting systems, which will result in reports for the regional park level and national level offices can use that to see at a glance the status of a contract.

Everyone who is involved in this process needs to know what their responsibilities are

and the government's documents are designed to help do that so prospectuses do not get hung up either at the park, the region, or even at the particular contractor that is working on them. The goal is to make sure that every prospectus that is developed has both a government's document and a project agreement so that the superintendent, the regional office, and the Washington office are all in agreement with what the milestones are for the project, and can communicate frequently about any projects that might occur. Increased education and communication prior to contract development is extremely important to make sure that the superintendent and the concession staff at the park understand what the prospectus development process is all about. It takes, on average about 18 months to develop a prospectus, plus some time in front of that for any planning efforts that need to take place resulting probably in two, sometimes three years out before the development of a prospectus.

Mr. Cornelssen added that for the smaller parks, it can be done more quickly depending on how well the park is prepared when the consultants or internal staff go to the park to execute and begin their prospectus development.

Ms. Pendry stated that the goal is to work on the processes so that the service can be more efficient in getting the prospectuses out as quickly as possible, thereby eliminating having concessioners in positions where they are on extensions for years.

Chair Naille pointed out that superintendents do move and rotate around through the system, and suggested it might be better to just have education program for superintendents to go through this, maybe even requiring it before they move to a park that has a concession operation.

Ms. Pendry agreed and stated that a recommendation from the Board in that regard would be very helpful. She further indicated that training should be done not only on prospectus development, but also on Concession management in general for all superintendents that have

concession contracts in their park.

As far as training for the National National Park Service staff, in addition to the superintendents, there is a need to ensure that the training is up to date and accurate for the Concession specialists at the park and for the people at the regional and also the national level. The training needs to be aligned with the 1998 law and aligned with the types of expertise that they need in order to be able to manage or oversee National National Park Service concession operations, which can be very complex. Ms. Pendry expressed the belief that there is a need to review the training to make sure that it is the best it can be, to ensure that quality services is provided to the concessioners and to the visitors.

Mr. Fujiyama commented he has a contract that will expire several years out, but because of this new contract process, it seems as though the operations are held in a status quo, where things cannot be done subject to the new contract. It does not allow the concessioner or the public the best service. He thought it important that if there is an ongoing contract to not hold back the concessioner from maintaining or improving the facilities.

Ms. Pendry explained she would certainly take his comment to heart and that her function at this meeting is listen to concerns and take those back.

Mr. Cornelssen asked if Mr. Fujiyama spoke about an operational issue or a capital issue and if he was concerned from an operational perspective.

Mr. Fujiyama stated he was hampered from an operational standpoint and from a maintenance standpoint. He went on to explain his problems as they relate to improving facilities, as well as difficulties resulting from a change in personnel that can change every two years.

A lengthy discussion followed on this particular subject.

Mr. Fujiyama also spoke about developing a master plan under those circumstances.

Ms. Pendry agreed that people should be trained in a consistent manner and they come in with documented objectives and plans so that they continue the same processes that were going on before.

Mr. Fujiyama expressed that his biggest problem related to establishing value on possessory interest and not so much the language in the contract.

Ms. Pendry reiterated that in terms of streamlining the prospectus development process the objective is to ensure that they are very similar and that they are easier for prospective offers to respond to.

Mr. Fujiyama expressed frustration concerning how the prospectuses are coming out in terms of lease rents and return of investments, many of them just do not make sense.

Mr. Cornelssen pointed out that one has to deal with the law where they give very strict guidelines as to what one can and cannot do, in looking at a fair return to the concessioner, both on the management fee, or the operational sweat equity, as well as the real estate return.

A further discussion followed on the difference between a facility that is owned by the concessioner vs. a simple possessory interest.

Ms. Pendry stated she would do her best to let people know when prospectuses are coming out and would try to put a process into place to do that on a regular basis. She encouraged communication and feedback.

Update from SERA Workgroup

Ms. Berhman provided the Board with an update on the Standards Evaluation and Rate Approval (SERA) program. A lengthy presentation was given at the last Board meeting on the key steps that were taken over the past two years. The key next steps over the next year to year

and a half will be the implementation objectives for SERA consisting of a better alignment process with industry best practices. Both the old Law and the new 1998 Law requires the National National Park Service to provide contract oversight. This contract oversight is provided through the evaluation and rate approval program which is currently defined in NPS 48. The public law in 1998 further stated and asked the Concession Advisory Board to look into the procedures and processes for both evaluations and rate approval, and look at these procedures and processes to make them more cost effective, more process efficient, less burdensome, and timelier. To that end, one key objective is to look at the rate approval process, look at the procedures currently in place, understand whether they are working, if not, why not, understanding the methodologies used for rate approvals, and understanding the skills that are needed to do that process. The second part of it is looking at the operational part of the program; looking at the standards that are used to evaluate concessioners, and then look at a number of different elements of the operations program to make sure that effective and efficient NPS oversight is provided for contracts. The key objective is enhancing visitor experience. The Concession Program is here to provide quality visitor services.

Another objective is to ensure concessioner accountability and profitability. To that end, there are four key areas. One is classifications. Second is the evaluation process. Third is the evaluation/performance rating program. Lastly, is the rate approval program. Ms. Berhman explained the methodologies followed in arriving at these key areas. A SERA working group was convened back in 2001. It includes Park staff, concessioners, as well as some park superintendents. That working group has met and has been facilitated by Pricewaterhouse Coopers (PwC), looking at the different asset standards for food and beverage, lodging, retail and marinas, and then developing operating and facility standards for those four specific asset/service

types. The next step will be update and revision of maintenance standards for these assets/service types.

In addition to the operating, facility, and maintenance standards, currently there are general standards. The two general standards that exist currently are public health and risk management. These will be updated to reflect best industry practices in those technical areas. An additional general standard that will be developed will include one for environmental management.

There will be a pilot test conducted once the operating and facility standards for the four key asset types have been finalized in draft. This pilot test will verify whether the assumptions, proposed methodologies and standards are applicable to actual concession operations in parks and can be easily implemented by our NPS concession employees. Likely, the pilot test will be conducted at two parks, a large park such as Grand Canyon, and then a smaller park to see how the new standards and the classifications apply to the two different types of parks and their concession operations.

Ms. Berhman explained that marina standards have also been developed. However, there has not been consensus on these standards due to the variety of marina operations and activities. The difficult part of the task is developing standards that encompass all types and sizes of concession operations. This challenge has been less so for food and beverage, retail, and lodging.

A discussion followed on the Marina standard aspect of the presentation.

Ms. Berhman continued and stated that the NPS is also in the process of developing a national Clean Marina Guidance in order to update the maintenance standards and operating facility standards for marinas with the goal of ensuring that those marinas are protecting the

resources that are in those parks.

Ms. Berhman stated she will be again looking at the overall operational review program. Currently, in NPS 48, it stipulates the frequency that those reviews occur, who is authorized to do those reviews, and it identifies the ratings that can be assigned to different standards. The focus will be on knowledge, skills, and abilities Concession employees will need to have to effectively and efficiently implement the updated standards.

Ms. Berhman said the NPS will also be researching third party options that could supplement and support Concession employees in performing evaluations, such as the Public Health Office or technical experts in the areas of risk management and environmental management. Time will be spent on the rate approval program, likely convening a working group which will include a number of members from the SERA working group, to look at the different rate approval methods, soliciting feedback from both Concession Program employees and concessioners on what is or is not working, in an effort to identify successes and difficulties in applying existing standards or methods.

Ms. Pendry added that her office was about ready to release a delivery order to Pricewaterhouse Coopers (PwC) to help get this project moving again and getting the standards developed.

Chairman Naille asked for input from the audience regarding the program or its future. He indicated that there have been personnel changes and issues over this past year, but it has been an important topic of discussion at these meetings and the Board has been fairly active in its desire to see this go forward.

UPDATE: Commercial Use Authorization (CUA) Regulations and Status

Ms. Pendry explained that the 1998 law authorized commercial use regulations to provide services to visitors and that these IVP's were codified as CUA's under that new law. The legislation also called for the number of CUA's issued within a specific park to be consistent with the management of the resources in that park, and put limits that allowed for additional responsibilities for managing CUA regulations. CUA authorizations are not concession contracts, they will not authorize any construction. They are limited to two years in term. They do not authorize any preferential rights for the CUA holders. They do authorize payment of a reasonable fee to recover any expenses that the National Park Service might incur. The services have to be conducted in a manner that protects the Park resources, and they cannot limit the liability, or the liability of the United States has to be limited. About two years ago, there was a draft CUA regulation published in the Federal Register. It received a lot of comments which caused the NPS rightfully so to re-look the strategy of developing the regulations and, of course, include stakeholders, which is probably something the National Park Service should have done from the get go. They established a multi-disciplinary advisory group with representation across the types of services that are provided using these regulations, and there were also some board members on this advisory group. They held meetings in April and October of 2003, and they identified four primary areas that the issues fell in, administrative, fees, limitations, and then just some general issues which we are going to go over. The revised recommendations were presented to the Board at the meeting in October of 2003, and then a contractor was hired to assist the National National Park Service in incorporating all the comments and re-writing the regulations. That contractor was the regulatory group and then a draft of the revised regulation was circulated in September of 2004. Comments was received back. A draft incorporating the comments will be presented so

that people can review it one more time through the Federal Register process. Some of the changes from the first draft rule – commercial tour operators, will be administered through the CUA program. In the original draft rule, they were excluded from that program. The commercial tour operators are the people who bring the buses in the parks or people who operate private tour and they will get a CUA contract in the form of a commercial use authorization. The tour group operators would like to see a central permit. Those processes have not been worked out yet.

The first draft called for random selection. There is a lot of concern about these CUA authorizations being given out randomly, so the revised draft calls for criteria based on experience, performance, and qualifications.

The number of authorizations given out in a particular park will be limited based upon the Park planning guidance. There is a lot of concern about having too many commercial use authorizations in one park, so the authorization limitations will be addressed by each individual park. They changed several definitions in the new draft rule, combining the two authorization types into one. That authorization will be called the commercial use authorization, and they expanded the qualified person definition to include a person that the director believes has the experience necessary to carry out the terms of the authorization. And the term “commercial bus tour permits” was broadened and replaced with that commercial tour term.

Other concerns that were addressed in the new draft is the fee structures. There has been much discussion about the payment of fees, making sure that it is simple and not a complex process for the CUA holders, and while still working out some of those processes, the goal would be to have a simple payment procedure so that it is not overly burdensome for the CUA holder. The new draft does authorize non-profit where there is taxable income not derived from that particular activity; however, the legislation prohibits the use of a commercial use authorization

for nonprofit operators. So they would use the special use permit. There was a lot of concern with the way the previous draft was written regarding revoking these permits, so the new language has been softened to address the National National Park Service's need to revoke a permit based on cause and the word "terminates" has been replaced with the word "revoked" to distinguish it from concession contracting. This is the current status. Comments was received from the working group, they are in the process of being incorporated into the draft, and the goal is to have that draft published by mid-December again for review by internal and external interested parties. Those regulations will be then finalized as well as working on the Director's order for 8B which is the implementing guidance.

Chairman Naille urged to keep it as simple as possible.

Report from Leasehold Surrender Interest

Work Group

Dr. Jim Eyster explained that this presentation is a culmination of a lot of time and effort that has been put in over the last couple of years, dealing with the possessory interest and leasehold surrender interest conversion and a way of using asset management industry standards, subtracting value going through the life of a concession contract. He said that today's objective is to make a motion to the Board that the Board vote on the approval of these recommendations, and then the Board will provide a short written narrative summary that the Board will provide to the National Park Service in the next 30 days and recommend to them that they begin implementing the recommendations.

Dr. Eyster explained that the objective was the simplification of LSI and the application of it. When the Board was asked to develop a way of converting possessory interest to LSI and to

develop a way to monitor the conversion and also the tracking, a number of issues arose that were not dealt with before, and what the work group was attempting to do was to take hospitality industry's best practices in the asset management area, and move those over and implement these within the National National Park Service. The National National Park Service does have a significant asset management function with all of its fixed assets that it is dealing with. The objective was to try to simplify the leasehold surrender interest management and also recommend ways for the National Park Service to provide more certainty and transparency to the value of LSI over the term of the concession contract. The NPS nor the concessioners want to be surprised with what LSI is at the end of the contract because, that is the amount of funds paid to the outgoing concessioner by the incoming concessioner if there happens to be a change in who that concessioner is going to be. And there can be opinions that can vary all over the place as to what that value is, and since that value can be a relatively high number, one would want to try to eliminate surprises and do basically what the hospitality industry does in managing the value of its portfolio and be able to do this on a year by year basis with some true-up's every several years so that there is no big surprise at the end. The LSI Work Group is making recommendations to the National Park Service, not crafting regulations here. The requirements are focused more on accountability and has come from a variety of different sources. There was a 2001 directive, first of all, to eliminate the \$5 billion deferred maintenance backlog and, of course, that deferred maintenance all deals with fixed assets in the park.

In February 2004, President Bush issued an Executive Order to require a more responsible stewardship of assets across the Government, but specifically in dealing with National Park Service asset management. And KPMG in its Department of Interior Audit Findings basically stated there that one of their major findings was that the service has to get a

much better handle on the accountability of possessory interest and LSI. In response the group is attempting to respond in a industry best practices approach. Beginning in January of '03, the initial working group met in Washington, D.C. and identified four options that were possible options for handling and managing LSI. In Yellowstone Option 3 was chosen, which basically has two primary issues. One was who gets credit for the investment made in fixed assets. There are two sources for providing fixed assets. One is the concessioner and one is the National Park Service. It was agreed at that point in time that the entity making the investment would get the credit for making the investment. So if the National Park Service made the dollar investment, there would be no LSI. If the concessioner made the investment out of his own funds, then he would get LSI credit.

The second area was how to manage or how to account for physical depreciation. Each year when an investment is made by the concessioner, the value of that investment is indexed up by the CPI and then there is a deduct on that based upon the actual physical depreciation. The net of the CPI increase and the physical depreciation, if any, then becomes a new LSI value. Theoretically that would be done each year, and at the end of the term of the concession contract, that is the LSI value that would be utilized for the new concessioner coming in to take that contract.

In August of 2003, a separate working group meeting was held in Boston, and it dealt with the depreciation. It was found that there was really no disagreement after a one or two hour discussion on the source of funding credit. There were some issues on how to handle the physical depreciation. The group came up with some recommendations presented to the Board in the October 2003 meeting in Key West, and there were some problematic issues with the depreciation. There was no problem dealing with the source of funding crediting, but with the

depreciation there were some differences of opinion as to how this should be handled. There was a working group meeting in Washington, D.C. in March 2004 specifically attempting to identify and work out how to handle depreciation.

Then, from April through June, Pricewaterhouse Coopers (PwC) did some detailed analysis on depreciation and how to handle physical depreciation culminating in a conference call in July discussing that. And then, between August and October, PWC was asked by the working group to finalize the recommendations for presentation to the Board for today. Most of this dealt with the working out of the depreciation.

There were three recommendations that the working group is making. The first involves the LSI crediting using source of funds; the second involves how to allocate LSI to both a building and component level. When possessory interest is converted to LSI, one basically takes the possessory interest dollar amount and that becomes the LSI dollar amount. The way that is done is that dollar amount is a lump sum amount covering the portfolio of assets that happen to be in that contract. So the objective here going forward is, if there is a portfolio of assets in a contract, for instance, like three buildings, one needs to allocate the LSI to those three buildings so that each building has a value, and then there needs to be an allocation within each of those buildings down on a component level. How to get the building's LSI down to the component level? There will be a recommendation on that. After that is done, the question remains how to managed LSI, how does one track it and depreciate it over the remaining life of the contract. Those are the three basic recommendation topics.

There are basically two sources of LSI credit which will be recognized based upon who puts the cash in the deal. The first would be the concessioner's funding, and whenever the concessioner funds either new construction or improvements, if they have funded out of their own

dollars, they are granted LSI and the value of the LSI in the contract increases. This is basically done in two components; one would be their CFIP requirements which are outlined in the Concession contract that the concessioner will, over a period of time, schedule improvements that become part of the contract insurance. Then, if there are unforeseen circumstances where the concessioner makes additional investment over the term of the contract, if a roof blows off, for instance, and the National Park Service does not have money to put into that improvement and the concessioner puts that new roof on, then the concessioner gets LSI granted and those dollars fall into his LSI.

The second source of funding would be if the National Park Service funds those additional improvements. The concession contracts will be set up with a replacement reserve account just like it is done in private practice. An example was given, if the prospectus revenues are projected to be a certain number of dollars which would be 100 percent, and then expenses are projected which are applied against the 100 percent, and after taking the revenues minus all of the operating expenses, there is 12 percent left. That 12 percent left, once the profit is taken out, would normally come back to the National Park Service, as the owner of the property. If the National Park Service wants to establish, or actually would need to establish what is called a reserve for replacement in private practice, where money is set aside to put into refurbish assets as they wear out, there are two ways of handling that. One is to take the 12 percent of revenues as fees, and then put the sum of that 12 percent back to handle the reserve for replacement and replace those existing assets as they need replacing. Or, the other is to take a portion of that, let's say eight percent, leave it in the accounts at the park, and have the concessioner administer those replacement funds, whereas the three or four percent that is left over becomes what is called the franchise fee. So, in effect, what is happening is there is a certain amount of money which is

really ownership money, the National Park Service money, that is left in the accounts of the concessioner for the reserve for replacement. So this is really National Park Service money, but it is left in the account for reserve for replacement.

Then there is the maintenance accounts which are the normal operating accounts. So, basically the normal repairs and maintenance would be handled out of operating cashflows, but any funding over and above the repairs and maintenance would come from either the concession funding where they are granted LSI, or the National Park Service funding which would come from the replacement reserve account. Now in a scenario where there is no money left in the replacement reserve account and a capital improvement is necessary, if the National Park Service does not pony up for the money and they ask the concessioner to pony up for that money, and the concessioner makes that investment, the concessioner gets LSI credit for that because it is the concessioner's funds. If the replacement is funded by the National Park Service, the concessioner does not get LSI credit because the funding comes from actual National Park Service funds. So those are the way the work group looked at the two sources of funding.

Dr. Eyster showed a table detailing how the process works. Any planned and unplanned maintenance that is done would be handled through the repairs and maintenance expense of the operating statement and there would be no LSI granted because that is a normal operating account, a normal operating activity that occurs and is budgeted.

With regard to replacing an already existing asset, Dr. Eyster explained how there would be an adjustment down, if applicable when there is any physical depreciation. This is not booked depreciation, accounting depreciation, this is actual physical deterioration of that asset.

Recommendation 3 deals with how to track physical depreciation and how to adjust the LSI for each asset to determine physical depreciation. Basically, the system will include a way to

protect and track LSI value in the terms of the contract on the building component replacement costs, of course the increase, first of all, by Consumer Price Index (CPI), which is automatic each year, and then a deduction, if any, for each asset based upon any physical deterioration or physical depreciation that may occur. This is done as standard procedure in the private sector hospitality industry with all the asset managers as they track each year the value of their assets.

The value of the assets as defined is going to be the LSI. Dr. Eyster provided an example of the recommendation 3, managing the LSI, tracking the base value and the depreciation, calculating the LSI for each component. This is based upon recommendation 2, which is taking the initial LSI and distributing that among the existing assets, determining the estimated remaining life of each component which the initial condition assessment would determine which would be the physical inspection of the assets and determine the annual depreciation for each component. This is going to be a numerical calculation, and it will be the best guess for each of those components here as to what that will depreciate each year. Going through the calculations for years 1 through 5 it may be that things do not always work out as planned, so at the end of Year 5, or it may be 4 or 6, depending on the contract, there is actually a periodic true-up of the LSI value. For instance, each year LSI will go up by its consumer price index, so there is basically no dispute there. But between Years 1 and 5 the estimated physical deterioration is based upon a best guess. At the end of Year 5, there will be a true-up looking at these components to do a physical inspection of them to see whether something has deteriorated more than what was estimated, or had deteriorated less, and adjustments of the LSI will be made at this point in time. For the next three or four years this adjusted formula will be used and then a true-up done at the end of, let's say, Year 8 or Year 10. The function of an asset management function is to try to track LSI value reasonably closely over the term of the contract, so in Year 6, or Year

8, or 10, or 12 if the contract runs 15 years, there are going to be no surprises on what is the value of LSI. This can be helpful both for the National Park Service and for the concessioner because a lot of this information is going to be in a prospectus, at least a best guess of what it is going to be, so that a concessioner can have a better handle on what the LSI is likely to do over the term of that contract year by year. The adjustments will be made on the true-up's. And the National Park Service is going to have some idea of what the LSI value is going to be over the term of the contract so there are no surprises when that contract runs out. And that would basically be work group's recommendations.

The first one dealt with crediting and LSI would be credited if the concessioner provides the funding for those capital additions or improvements. Funding will not be granted if the National Park Service contributes the funds. The allocation, which is Recommendation 2, takes a lump sum LSI number, which is the number based on the PI that was negotiated or arbitrated in an agreement, then applies that PI to the assets within the portfolio, both on a building level and a component level.

Recommendation 3 is the tracking of the LSI by building and component over the term of the contract, showing the increase of each item by CPI, and the decrease of each item by a physical depreciation estimate for each year until one gets to the true-up and do an actual adjustment on the projections.

Board Member Voorhees stated he agreed with the presentation but had some reservations with regard to bringing the assessment down to the component level. Using Blue Ridge Parkway as an example, he asked how many components would have to be separately tracked for financing for the LSI. Mr. Cornelssen explained how this would be done in that there could be six buildings with five components that is 30 different components being managed from

year to year.

Board Member Voorhees asked if in this process, each one of those components every year would require some kind of acknowledgment or agreement on the part of the concessioner that that is in fact the value.

Mr. Cornelssen thought that might be optional for the National Park Service.

Board Member Voorhees indicated this would provide much opportunity for infinitely bogging down the process.

Mr. Cornelssen reflected that if one does not manage the inventory this way now, both as an operator and the owner, one certainly would not be following best practices.

Board Member Voorhees inquired into the dispute process and Dr. Eyster indicated this ought to be handled as part of the contract. Personally, he would like to see a sign-off on the true-up's, because no one is going to want to sit down every year and run numbers on all 30 items. But in the owner's meeting or the National Park Service concession meeting, which should happen a couple times a year, they should prioritize what needs to be done and what does not need to be done. Each year there is a calculated physical depreciation number placed on all of these items, which is a best guess back at Times Zero. And some of these could be like a foundation, or the foundation could be, if it is a 20 year contract, you might want to show one percent a year, or maybe even zero percent, but know it is one or zero, and at the end of five years or four years, do a true-up and that would be the fifth actual physical inspection of the foundation, and if it is zero and it has depreciated three percent, it can be taken back up to zero depreciation.

Mr. Cornelssen pointed out that it is not likely to be an argument over things like the foundation or the super structure or any of that. What will be debated are things that are going to

get replaced more frequently such as carpeting or interior finishes.

Dr. Eyster pointed out that the idea of a true-up every four or five years was a major concern of the concessioners and they wanted to have an actual true-up done as opposed to relying on a formula of depreciation for 20 years. Nobody wants surprises and this is pretty much of an industry standard approach in the private sector.

Dr. Eyster said it would be his recommendation that at the point of the true-up there would be some kind of literal agreement and if there are squabbles about that, then there will be some mechanisms to bring that together. A contract should not go 15 years and then have one side say LSI is 100 and the other side say it is 30. That is why it is important to take differences as one goes through the contract and try to hit points where one can sign off on that before going through for the next four or five years' window.

Mr. Fujiyama had several questions, one of which related to the establishment of the first value of a building.

Mr. Cornelssen stated he wanted to make a distinction between PI valuation and LSI. The issue is not trying to solve the PI valuation with this, because that is either negotiated or an arbitrated or adjudicative process that the National Park Service really does not control. There is contractual arrangement that exists to make that happen. Once that PI number is established, whatever it is, either it comes through negotiation or an arbitration, that is the starting number. This issue it not about trying to re-establish how to value PI, that is a separate issue. The PI will be a value negotiated between the incoming and outgoing concessioner. There are a lot of different options. It could be a negotiation between the National Park Service – part of the contract could be negotiation between the incumbent concessioner and the National Park Service. If the incumbent concessioner and the National Park Service cannot agree and they want to

arbitrate prior to the release, they can do that. If there is a new concessioner and the new concessioner negotiates with the old concessioner, if they cannot agree, then they arbitrate. That is kind of the way the rules work. The Board was not asked to resolve the issue of PI, the Board was asked to look at the issue of, once you have a PI, how do you manage LSI? The concern was with the regs as it related to how to credit LSI and how to depreciate it.

Mr. Fujiyama's next question related to a 15 year contract where a CPI is added to that every year. If the CPI is construction and it may not be true to construction, and on the fifth year when you re-evaluate, again you are going to be negotiating values, so how do you establish that value at that point? Will it go by the CPI

Mr. Cornelssen replied that is what the law says, it is not negotiable. It is not negotiable for the National Park Service either. The National Park Service may not like it, but it does not matter, it is stated in the Law.

After a lengthy discussion on this subject, Dr. Eyster explained that as part of determining what the franchise fee will be and at a market return for a hospitality project that might be 18 percent, in order to attract competitors to bid on that contract, there are a couple of ways of getting to the 18 percent. One is the return on the investment, which is the LSI, the leasehold surrender interest, which is not going to give that 18 percent. In order to make sure that the 18 percent comes to the concessioner through operating returns, one can either increase or decrease the franchise fee. Now, if this is a situation where you may have to make a fair amount of investment, in order to get the 18 percent return, the service may have to take a franchise fee of only one or two percent to do that. If it is a situation where you do not have to make much investment, where you are not going to kind of lose on that opportunity cost, then you could get your 18 percent by getting a slightly higher franchise fee. But the arrangement on putting the

prospectuses out is that the concessioner needs to have a return on his investment that is at least market. And there are two ways of doing that, one is a return on invested capital which is very limited here with this CPI, so the service will have to make it up to you on the operating returns. That is why the franchise fee percentages are not straight percentage across the board, they vary all over the place because if there is a significant amount of capital improvement where you are not going to get any kind of market return, the service will have to make it up in operating returns.

Mr. Cornelssen pointed to some of the prospectuses that have been released, where there are some with a high maintenance reserve requirement and fairly low franchise fee, and others where the assets are in extremely good condition and practically brand new with a very low reserve and a very high franchise fee, which makes sense from a financial perspective.

Replying to a further inquiry by Mr. Fujiyama about franchise fees and reserve funds, Ms. Pendry explained that it would be in accordance with the terms of the contract, what monies are spent by the park on the facility vs. what monies are spent by the concessioner. The entire franchise fee return to the park is not required to be spent on the concession operation.

Mr. Cornelssen explained that the reserve fund may be based on a condition assessment done by a professional group of engineers who have gone in and done a very thorough assessment, it is then audited and checked by financial and accounting people to make sure it is reasonable. There usually is never enough money to do all the things the engineers want to do, so one has to figure out what is affordable for the contract and what is reasonable. And that is the account. It is a very detailed analysis, it is a year to year analysis on a 15 year contract, building by building, component by component. So it is not just like Pricewaterhouse Coopers sort of throwing a dart at the wall and saying, "Maybe it is four percent or maybe it is eight percent." It

is a very carefully reasoned number that is required. And the goal here is, prior to distributing the funds to the National Park Service for other purposes, first and foremost, the funds stay to protect and preserve the assets. The National Park Service's charter is to make sure that the assets are maintained.

Dr. Eyster said that the franchise fee ends up with what is left over after the requirement of the operating expenses, the reserve for replacement, the 18 percent return because if this was not offered out of the return, then the National Park Service would not get any bids. And then what is left over is called franchise fee. So the franchise fee is what is left over just like a return on equity, too, in a private investment is what is left over after all the other obligations.

Further discussions followed on this issue.

Ron Everhart had a question related to the allocation of fund source. In the event of an unplanned expense, like a roof blowing off and the compensation comes from the insurance company, how is that allocated to LSI?

Mr. Cornelssen said that probably the recommendation he would make to the working group and the Board would be that, because the concessioner had to carry the insurance, if it was an LSI eligible item to begin with, then they would carry LSI on the new item.

Mr. Everhart asked if this would be for the entire amount of the insurance award, or for the actual insurance cost.

Mr. Cornelssen stated that this is something which has to be figured out. It probably would be a proportional figure, not a complete figure. That is a good question. And in speaking with the lawyers and kind of looking at it based on this sort of policy of who pays, if the concessioner is paying for the insurance, the concept would be they would somehow not lose that LSI investment that they had prior to the event.

Chairman Naille added he did not know that it is important that it shows up in the prospectus. The discussion is about crediting or not LSI value. Appropriations is not going to be credit of LSI value, but it could be a source of funding for maintenance.

Mr. Cornelssen explained that the reason that they want to try to provide as much of that in the prospectuses, for example, in the case of The Old Faithful Inn at Yellowstone, there is construction interruption that is going to occur that will have an impact on the financial performance of that contract, and so they would want to provide as much detail as possible so that concessioner understands what they are going to have to live through during that renovation process. In the case of maintenance, one should try to disclose as much of that as possible in the prospectus because if maintenance is going to be offset with appropriations that the concessioner would not have to pay for, they need to know they are getting sort of a subsidized maintenance or that there are certain things a concessioner is responsible for and there are certain things that the National Park Service is responsible for.

A further discussion followed on this issue.

Jan Knox expressed concern from a park management level regarding every four years having a true-up and inevitably there is going to be some disagreement on how to true this up, and experts will have to be paid to come in and consultants on both sides to support the cases, and then have to go through some kind of arbitrated dispute process to reach an agreement. That could really bog down contract management and the working relationship between the concessioner and the park. There is going to be times when there is disagreement on that contract, and that concerned her from a park staff perspective of where are the funds coming from to manage this process, both for the concessioner and the National Park Service.

Mr. Cornelssen stated that the original idea was not to do all this trueing-up and this

condition assessment stuff. This was going to be time consuming and costly. The original idea was to have sort of a scheduled depreciation where the original condition assessment would be done and then one would basically say that assets should depreciate on this schedule. The concessioners thought this would be unfair because if they would take better care of those assets, they would get no credit for that. For the sake of the reduction of administrative burden, the service is not going to try to micro-manage this process along the way. Having said that, the National Park Service still has policy out now that concessioners are going to implement this new system where they will have to do this for all their assets, probably in even more detail than what is being proposed here in terms of the uniform out level. There is a National Park Service directive right now to become better asset stewards. This was tried in the first time around with this idea of booking a physical schedule based on the physical inspection at the very beginning, and based on what an architect or engineer is indicating how long those assets will last. But the feedback from the concessioners is they do not like that.

Dr. Eyster stated that, originally, there was no true-up in the process, so it would not have to be three, four, five years, but the feeling was that it was fair to have true-up's along the way. Now, if the cost of that exceeds the benefits, then one contract may want to disburse with it.

Mr. Welch stated that, as a member of the working group, he was not aware that they had formally concluded that true-up's were a good idea to the extent that either or both parties wanted to do them, and they might prevent misunderstandings down the road. He was not aware that the working group conclusion was that they are required and binding, which was certainly discussed, whether they should be binding or not. And the Association's position was that if either party wants to spend the time and money and effort every four years, five years, whatever, that they are certainly welcome to do that.

Burt Weerts had a question for the concessioners and asked if they had a similar process with other clients, where they actually are conducting true-up's.

Mr. Welch said they did not have true-up's in the sense as discussed here. Their response to the true-up was a response primarily at the request of the concessioners, and thought it was a good idea if everyone was going to go along with it. The law says that the physical depreciation measurement is required at the expiration or the termination of a contract. That was his clear understanding of the law, and would have no objections to that in any way.

Mr. Cornelssen inquired if he would rather wait until the end, have a big argument, and have a lawsuit or arbitration, spend lots of money.

Mr. Welch countered that if either or both parties prefer and want to fund the time, effort and resources to do that during the course of contracts, it is a free country and that is what makes America great, everybody can have different opinions and one does not necessarily have to agree on everything. But at the end, obviously, there is a final true-up. Prior to the next true-up you could not undo and reverse the true-up and that you were stuck with the binding nature of the official true-up which, of course, does not make any sense at all.

A further discussion followed.

Mr. Cornelssen explained that the Federal Government is moving in the same direction the private sector is from an audit perspective, from an accounting perspective. The private sector has been hit hard and all new rules are being applied, all the same rules are going to get applied in the Government because GAO believes that the Government should be better in the private sector, not worse. There will be real property accountability and there will be no choice from an audit perspective. There will not be a clean audit if there are no clean books and very detailed information on the value of the assets and the liabilities.

Chairman Naille wanted to bring up the fact that over the years there has been maintenance operating agreements on various contracts, where every year one must decide who is going to do what, and why, and how much money is going to be spent. The National Park Service is constantly going to know the intimate details of what is going on in that facility. The concessioner is going to know what is coming apart, what is doing better than normal, what needs money, what does not need money. Things that one might have just guessed at by casual observation in the past, is now going to be detailed on a sheet of paper, which was never done before. This is a significant valuable benefit. That information will be of great help.

Mr. Williams opined one would not need to have this final true-up at the end of the contract and that this would be somewhat problematic for printing a prospectus out and having people bid on it without really knowing the value. There was talk about the problems of actually doing a true-up every five years being costly, or at least having recommendations to do a true-up every five years. It seems like a practical solution would be a recommendation to try to do a true-up two to three years before the contract is due to expire, assuming effort are under way to get a prospectus out. That would take a lot of the risk out for the prospectus going out. There still will be two years of uncertainty there, but it seems like that could be a very practical solution.

Mr. Cornelssen thought that if it is a 10 year contract, that is probably right, or maybe an eight year contract. But for a 15 year contract one should not want to wait until year 13.

A discussion followed on this subject.

Mr. Cornelssen noted that the initial condition assessment is the most expensive condition assessment. In a lot of cases, the National Park Service does not have a complete inventory. So the first thing to do is just establishing the inventory and then assessing the assets. How much information the National Park Service wants is in part influenced by FMSS. The

following condition assessments do not have to be as comprehensive as the first. The goal is just simply to get a sense of whether the inventory is getting better or is the inventory getting worse. That should be done by Management in some cases, every year. And certainly ever five years one could do a limited condition assessment. The National Park Service's approach right now is they are saying that they are going to do a limited every year and a comprehensive every five years.

Mary Murphy explained that in the larger parks where there is a larger asset base, they would probably be doing 20 percent of the assets on an annual basis, so every five years; they will be looking at a portion of the assets. But along with the Facility Management Software System (FMSS), work will be done on developing some asset management systems and programs and roll-up's to track this, but those are not developed yet. There is also the added responsibility of tracking the liability, which FMSS does not have yet. She related they have been working closely with the FMSS development as well as the asset management or the Concession Maintenance Management System (CMMS) and how that is going to roll into their program.

Mr. Cornelssen pointed out that a new Finance and Business Management System (FBMS) will also be implemented which is a whole new financial system for the Department of Interior. The National Park Service will have to implement this sometime in 2006 or 2007 requiring much more robust financial information than what is currently collected.

Mr. Welch cautioned not to not forget the PPMS, the Personal Property Management System, as well as the PSMS.

A short discussion followed along these lines.

Mr. Welch wanted to mention just a couple areas of agreement that were reached. There was agreement that the 50 percent rule is gone, that that was not spoken, just for the record, but

that was the case that the Association agrees with the source of funds crediting method subject to a reasonable solution on the appreciation side, which was also discussed numerous times. There was agreement that some level of allocation is necessary. The question is how to write that into regulation depending on full portfolio contracts that have anywhere from a single building to hundreds of buildings, so the whole level of complexity is certainly still up in the air. He was not sure how that to memorialize that in a regulatory framework, but there needs to be some detailed allocation steps.

Mr. Welch thought there had been agreement on the fact that the condition assessment in the final resolution of the physical depreciation was only coincident with termination or expiration of a contract, or close enough to take out the major surprise factor. But this may still be an open issue based on what was discussed today. He was not clear if there was a requirement on the concessioner's side to also do either simultaneous or similar or independent condition assessments. If so, on what frequency, and to what degree are they binding?

Mr. Welch reported agreement that professional oversight is both desirable and required so that there is consistency across the National Park Service, as opposed to having different levels of either understanding or judgment entering into it all across the country. The big contracts would require some level of professional oversight and maybe an ombudsman-type approach so that there is consistency in the administration. There was also agreement on the physical standard of depreciation vs. many of the other ones that were concluded. One of the main open areas is still the depreciation aspect.

There have been discussions about the Government liability and one of the things he could think of as a CPA, is that it is a contingent liability, and it is only a Government liability in a very few and hopefully rare set of circumstances that in 99 percent of the cases it is not a

Government liability, it is a contingent Government liability. He felt that in some respects, by focusing so heavily on the liability aspect and not focusing as much on the asset aspect, they have thrown the baby out with the bath water. Coming from the background of the private sector, he felt that it is desirable to encourage private investment vs. Government investment in national park contracts. Turning LSI into a bogeyman was never the intention, however, it has become almost kind of a fear factor type process as opposed to encouraging private investment in lieu of limited Government funding that is a great solution for the National Park Service visitor.

Mr. Cornelssen said that one of the issues that really came up was this whole issue of how to align how the concessioners are accounting for this with how the National Park Service is accounting for this, and making sure that the National Park Service does account for this. He agreed that LSI should not be viewed as the bogeyman, but if the value of LSI is so great that one cannot put out a new contract because it is not competitive, then what has happened is the debt to equity ratio has gone too high.

Mr. Welch said he had no problem with that at all, but was talking about whether the private sector with a lesser need to know level of precision, is required to do that as well, simultaneously, and at multiple intervals throughout the contract.

Mr. Cornelssen indicated an auditor is going to require it.

Mr. Fujiyama provided a personal example regarding a roof upgrade and repair.

Mr. Cornelssen reiterated he perceived this as a good management system for the National Park Service and for the concessioners, as well as a good accountability system. It is not just trying to please the auditors here. The National Park Service needs to manage the buildings down at the component level, not a building level.

Mr. Welch repeated that what he said was that the Government is completely on its own

if it wants to do mid-term condition assessments. What the Association believes is that it should be an optional mid-term conditional assessment on the concessioner side, and he did not disagree that it is not a good planning exercise and kind of focusing on the annual maintenance plan, or focusing the strategy for major projects during the term of the contract. He was only referring to the major amount of time, effort and money that is going to be devoted to those if in fact they are used to true-up in a contractual binding sense.

Lawrence Rosoff wondered if this was not anything more than a management tool that you should be in lockstep as a concessioner with the National Park Service to implement that reserve. Isn't this nothing more than just a planning tool in that there should be no surprises after the five years. A concessioner should be in lockstep with the NPS to implement that money.

A further discussion followed on this subject.

Dr. Eyster recommended sticking with the recommendation that there be a true-up. How this will be implemented, or whether it is binding or not, can be taken as another step. He personally would like to see it binding because it is self-correcting. If there is a difference at the true-up, and maybe there needs to be an arbitrator at the true-up or an ombudsman to come up with a number, then adjustments can be made later. He would rather see a few small surprises along the way involving smaller amounts of dollars, then in the large contracts, whistling in the dark for 15 years. It is important to have a handle on what LSI is year by year, and Dr. Eyster strongly recommended a true-up. How to implement that may be in the realm of the National Park Service itself.

Another discussion followed on the effect on the smaller concessioners, as opposed to the larger ones.

Dr. Eyster suggested being sensitive as the National Park Service goes the next step

forward to consider the concerns that were in the discussion today.

Mr. Welch recalled that there were four major issues designed to be addressed. One was the rate approval process, which was discussed this morning. One was the cross collateralization issue, and the second was the transfer provisions or approval levels which both should be kept on the general agenda.

Dr. Eyster agreed and asked for further questions on the LSI before going into the next subject.

Scott Socha from Delaware North wanted to know how that second evaluation would be done and who would be doing it. Would that be the same individual or same company that would have done it in the first place. What are the requirements and what are the parameters around high, medium and low on the true-up's.

Dr. Eyster indicated this would be a subject for further consideration.

Judy Jennings had a comment with regard to the presentation on valuing assets and the emphasis on establishing values, rather than just tracking assets, and suggested this may be something to think about for Randy and Jo, in particular. She said that KPMG are looking at PI and leasehold surrender interests as a liability against the government, and at the same time are revaluing those concession facilities that do not have that as an asset to the Government, because she was not sure they have the value of those buildings that are concessioner assigned with no LSI in the system with a value, as such. This would be something that must be considered in the future and how to determine the value of those facilities.

Ms. Pendry stated that the discussion with KPMG was regarding assets and liabilities, and if there are liabilities, there are also assets.

Ms. Jennings recalled there was a little side discussion on how to determine the value of

those buildings that do not have LSI or PI, and would one use the insurance replacement cost value, or would one actually go through the process similar to what is done in determining PI.

Mr. Jones in following up said he knew there is a difference in opinions of whether true-up's should be done periodically or not, but the reality really hit NPS this year with KPMG, who is the Department of the Interior's Auditor. They literally were threatening to fail the entire Department of Interior's audit of last fiscal year because no one could give them a possessory interest value for every concessioner in each one. They insist that, in the future, this has to be done.

Mr. Welch said he had no objection to the National Park Service doing condition assessments every day of the week.

Chairman Naille commented that in talking to both the House and the Senate Committee people, they are quite concerned about it, so that may be what drove this particular issue there. They are quite concerned about it and they see this as real money.

Mr. Cornelssen noted that the requirement for audits is the CFO Act. It is a law, and as auditors, they can do whatever they want.

Mr. Jones stated that the reality of what has happened with them is, because they have been the auditors for several years, is that it seems like every year they find a new issue. And this happens to be this year's issue.

MOTION: Dr. Eyster moved to have the Board accept the three recommendations that were presented today and recommend those to the National Park Service for acceptance and implementation. He also moved that the Board consider the comments today made on the component detail listings for the buildings and provide some guidance on the degree of detail or the range of detail that that would be acceptable. Dr. Eyster asked the Board, in its

recommendations, to comment on the two issues concerning the true-up's, one issue being whether the true-up's would be required or optional, and the other whether the true-up's would be binding or non-binding. If the Board would consider that in its recommendations to provide some guidance to the National Park Service, that also should be part of that report.

The motion was seconded by Board Member Weerts.

The motion passed unanimously.

Chairman Naille proposed to do a final paper on this and submit it to the National Park Service.

Dr. Eyster stated the final paper will address those two issues in addition to the three recommendations. He then thanked everyone for their input, comments and concerns. This is really very important to the Board and what the Board is able to recommend to the National Park Service. The Board will also include in the true-up's to consider the variation of the differences as an issue there, too, as some kind of a guideline rate.

Chairman Naille addressed the other issues brought up, the cross collateralization and the for-sale and transfer issue, and the 50 percent rules, even though he felt the Board already made those recommendations and has asked the National Park Service to implement.

Mr. Jones agreed that the recommendations on cross collateralization were made at the meeting in Yellowstone. The Service has just been holding off resolving this issue for now until everything else gets finalized.

A short discussion followed on this subject.

Mr. Jones stated that from his perspective the next step after receiving the formal paper will be for the Board to submit these recommendations. Things like the 50 percent rule have to be changed by regulation, they cannot be changed by Director's order because regulations prompt

Director's orders. Mr. Jones said he will initiate expeditiously the regulatory process to make those changes in the regs which mean there will be a draft rulemaking, send them out for formal public comment, and then final rulemaking.

Mr. Tedder had questions regarding the regulations, how they would impact all contracts that have already been issued under the old regulations. How would that change or would they stay in force until they are renewed.

Mr. Jones replied it would depend on how the new regulations are worded. It could be either way.

Chairman Naille expressed great concern over that particular issue, because this still could take some time. Any contracts that are renewed during that time are going to get stuck with the 50 percent rule. There is no way that a Director's order can be written temporarily.

Mr. Jones explained that if a contract is awarded today, the 50 percent rule applies, then if the regulation does the 50 percent rule still apply today in today's contract? It certainly would be the intent that it would not apply and that the new regulations would be drafted in a way that it changes it for all contracts.

Mr. Tedder suggested the point is in the reporting requirements under the existing guidelines, every time there may be an LSI value, it has to be submitted to the park superintendent, and then at the end of the project, he signs off on it. Now, again, based on the 50 percent rule, none of that is being done. So if it is retroactive, this could be a lot of back work to go back and add that in, to get all that signed off on.

Mr. Jones stated the best he could do is commit and ask to what extent, as part of the regulatory process, there could be either an interim or a temporary emergency rule to make some changes pending the formal process.

Mr. Jones further stated he was certainly willing to explore with the attorneys what mechanisms might exist to fast track to implement something sooner rather than later pending the formal rulemaking process.

Pat Morrissey asked when the slides of the Powerpoint typically be available for the participants to look at and to supplement their notes.

Mr. Cornelssen stated he would e-mail them to Ms. Pendry.

Ms. Pendry stated that typically they come out with the Minutes.

Board Member Voorhees said he had a few questions about training and travel, two things related in the Concession program. The first question is, how is the travel lockdown affecting the ability of the program to manage itself and train staff appropriately? A lot of funds have been withdrawn from training in the last year and there may not be any improvement likely in the short term.

Ms. Pendry said that being the new person in the Concession program, training is very important to her and very high on her list of things that need to be evaluated. There are quite a few training programs in place. They may not be the right training programs, and she did believe that there needs to be a little requirements analysis of all of the training needs, re-evaluate them, and re-design new appropriate training based on today's law. She did not feel hindered in terms of having the dollars in order to be able to do that. There are some 20 percent funds that can be used for training. There may be some concerns and some problems with travel if the travel restrictions remain in place as they are.

Board Member Voorhees asked how does the National Park Service prioritize what is allowable travel and what is not.

Mr. Jones noted there is not a nationwide system.

Ms. Pendry said she also needed to look at the way the service plans and arranges training. There is web based training that could certainly be used to train the trainer, types of training, more localized training so that people do not have to travel all the way across the country in order to be able to receive training.

Board Member Voorhees recommended that, given the level of the technical nature of items discussed, it is useful to propose that superintendents specifically attend an education program to run through the prospectus process and prospectus development, the time frame, expectations, and appropriate levels of engagement on their part.

Ms. Pendry said she agreed with that 100 percent. It is important to start at the beginning or two or three years before prospectus development and make sure that the superintendents are trained and understand all the processes and procedures with this process.

Board Member Voorhees then asked what kind of training does a superintendent coming up to a park at a certain level that has concessions will have in the way of familiarization with Concession program.

Ms. Pendry said she was not sure if it is included in their superintendent's training or not.

Mr. Cornelssen commented that superintendents are busy people and are running large parks with complicated operations. There should be a priority in what they get trained on and what they have to be trained on is financial and legal risk management. There are financial issues they are dealing with and legal issues they are dealing with. They just need to understand the implications of the financial and the legal issues when they make decisions like the LSI issue, or the PI issue, incurring more liability for the Government, or whatever. It would be good for them to know the day to day operations of Concession Management, how concessions work, standards evaluation, rate approval and all that, but maybe in terms of baby steps, the first step is just what

not to do. Something along the line of, these are three or four things that if you do, could create a significant liability or a legal problem for the Government. As a superintendent you have a fiduciary responsibility.

Dr. Eyster stated he did not think concessioners need to be the experts on Concession Management nor do superintendents need to be experts in the same manner, but they have to be well enough versed to know how to be a good federal partner, and you should certainly be able to execute the contract in a reasonable way. Maybe it is a better made recommendation to ask the National Park Service in the next meeting to come back with a proposal for exactly how the service would approach the issue of making sure that superintendents have the right level of exposure, training, whatever you want to call it.

Chairman Naille suggested a recommendation that the National Park Service come back with proposed programs. That creates a Board recommendation and yet it lets the National Park Service put together a program that works.

MOTION: Board Member Voorhees moved that by the next meeting the National Park Service outlines for the Board how they would approach this issue on training superintendents.

Dr. Eyster added to include the following issues in the motion: (1) what operational and capital management issues are most relevant. The superintendents needs some training on whatever the overview is, or an overview on prospectus development and the awarding of contracts, what this process is, and (2) how a concessioner's performance is monitored and evaluated, not that they have to know how to do all of that, but that they are familiar with how that is done, and then what role they play in each of those.

Mr. Fujiyama suggested using outside contractors instead of training 600 superintendents and their specialists. There could be one clearing house where the superintendents could give

their input, but the expert contract provider and their attorney, whoever, could prepare all the documents, and it would be consistent throughout the whole nation. That would be far more cost effective than training every new superintendent on laws and contracts.

He suggested the National Park Service look at that as they would save a lot of money and would get real professionals that know contract law, know what needs to be accomplished, and it would be consistent.

Mr. Cartwright commented he was the one superintendent in the room and there is a laundry list of training that superintendents are supposed to get every year. He thought it is reasonable to require that a superintendent in a park with a concession be trained up within a reasonable period of time, but there needs to be an understanding that the superintendents are scraping together training for their staffs and money is hardly available for training. So instead of a broad requirement that all superintendents get a given set of training, he suggested that the training be more of that overview kind of training of how things work. That is what superintendents need to know.

Chairman Naille said he totally agreed with that and that an overview program needs to be focused on superintendents with Concession contracts. It is important that the recommendation be made.

Mr. Cornelssen said when working with a superintendent on a major new prospectus, he felt it was his job to make sure that everything presented when first interfacing with that superintendent should be explained. He felt it was PWC's responsibility to make sure that they educate the superintendent on what is going on and give the superintendent the information they need to make prudent management decisions about what is best for the resource, what is best for visitors, or whatever. So maybe it is just a combination of some basic training for

superintendents, as well as whenever you are going to do a major prospectus is the responsibility of either the National Park Service people that are overseeing that process, or the consultant like PWC, to make sure they have like an orientation session or some basic training that is funded as part of their contract to make that happen because the parks are paying for that. They deserve that basic training. Chairman Naille noted that already the National Park Service uses outside consultants such as Pricewaterhouse Coopers (PwC) in developing those contracts. The superintendent is going to rely on the experts to see that it is done correctly. This is more of a full concept of giving superintendents enough information to know how to make the proper decision at their level. In a lot of cases, they do not know anything.

A further discussion followed on this subject.

Board Member Voorhees observed that there is very likely a deficit in knowledge and comfort among a lot of the superintendents probably and especially at the level that is below the big 62 where, yes, they are going to get the training that is required from someone like PWC, but not so much in the level below that. It was his hope that at the next meeting there can be a discussion of this with recommendations for costs specifically coming forward from the National Park Service as to how they will approach this so there can be a further conversation.

Board Member Weerts seconded the motion made by Board Member Voorhees.

The motion carried.

Mr. Jones made a suggestion for an agenda item at the next meeting. In the world of IT in Washington there is a recent suggestion coming from the Department that in the future all Concession contracts require the concessioners use the National Park Service reservation system for campgrounds as opposed to using their own. He said he would be very interested to know what this group thinks about that.

Chairman Naille suggested that all concessioners think about that, too, and bring thoughts to the next meeting.

Chairman Naille suggested having the regional chiefs give the Board updates on their areas of responsibility and what is going on.

He mentioned that there is a vacancy on this Board and several expired terms.

Adjournment

The meeting adjourned at 3:30 p.m.